



IWASAN
CONSULTING



SR & ED Update – Iwasan's Newsletter

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SR&ED Update – *January/February* 1999

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Federal Budget

The February Federal Budget left the SR&ED program alone. However, some industry associations give the government a "bad grade" for not introducing changes that would make the administration of the program simpler and fairer.

The action plan released by the Minister of Revenue on November 6, 1998 was intended to satisfy the growing discontent amongst SR&ED claimants. The action plan outlines 13 actions that are intended to improve the SR&ED program. These actions can be summarized as follows:

Action 1 – Field offices & HQ accountable to the Head of the Program; Emphasis on science and incentives.

Action 2 – Steering committee to oversee implementation of the action plan

Action 3 – Sector-specific committees to develop standards for sector

Action 4 – Communication package re: SR&ED audit process and taxpayer rights

Action 5 – Code of rights, obligations and responsibilities for stakeholders

Action 6 – Preventing disputes through communication

Action 7 – Process for informal disputes-second opinion

Action 8 – Clear backlog of outstanding disputes

Action 9 – Improved timeliness and openness of formal appeals

Action 10 – Joint industry-CCRA training for science

Action 11 – Improve the audit process

Action 12 – Clarify documentation requirements for SR&ED

Action 13 – Explore options to focus on one-time "process" audit rather than individual projects being audited

Overall the objectives seem to be 1] to improve communication with SR&ED claimants before claims are filed, during the audit process and in dispute situations, and 2] to improve the formal and informal process for disputes. These changes will greatly improve the program if successfully implemented. Our hope is that the objectives filter down to science consultants hired by CCRA, with whom most of the disputes on issues of science arise.

FAX OR CALL FOR A FREE INITIAL ASSESSMENT OF YOUR CLAIM ELIGIBILITY.

SR&ED Claims for Software – What Qualifies?

Since the influx of claims to CCRA for the September 1994 deadline, including some \$200 million claimed by the big banks, there has been a dramatic change in the way that CCRA has viewed software development claims. At times our clients wonder if any software development qualifies. To clear the very muddy waters regarding software claims our understanding of the policy at CCRA follows.

Science consultants at CCRA generally disallow all activities within a software product development project that they regard as standard practice in the software development community, such as:

- Designing and developing application software algorithms
- Testing application software algorithms
- Debugging application software algorithms

(These activities are independent of software and hardware tool development.)

All application software developers perform these activities – the development cycle is normally iterative, labour-intensive and may require clever or intelligent solutions. This development work, however clever, is not normally regarded as SR&ED. The question is – are there any aspects of the work in which the technological framework or platform requires extension in order to meet the needs of the application being developed? The requirement for direct intervention in and extension of the underlying technologies characterizes the major determinants of eligible SR&ED activities in software development, e.g. technological advance, technological uncertainty.

Documentation also becomes an issue within software claims. This can be difficult to overcome in an industry that operates without a paper trail. In order to distinguish the eligible work from the standard software development, CCRA looks for documentation that substantiates the science, as well as documentation that separates costs.

Iwasan works with software companies across Canada to identify eligible SR&ED activities within projects and to establish a process to collect the information necessary to make the audit process smoother at the end of the fiscal period. Call Doug Mitchell, Information Services at 1-800-661-4463 to find out more about this service.

Iwasan's Fees and Services

Project Evaluation:

- Technical evaluation by telephone with an Iwasan science consultant
- Estimate of the claim based on preliminary review of costs
- Process/Risk evaluation based on an SR&ED Readiness questionnaire

Fee: \$250.00 + GST